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THE QUESTION OF THE HOUR
—BUSINESS PROSPECTS

ADDRESS OF

CHARLES G. DAWES

BEFORE THE

CHICAGO REAL ESTATE BOARD

STENOGRAPHICALLY REPORTED BY
G. RUSSELL LEONARD

October 23, 1914

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The Question of the Hour—Business Prospects

Address of CHARLES G. DAWES before the
Chicago Real Estate Board
October 23, 1914

Mr. President and Gentlemen of the Chicago Real Estate Board:

We meet under unprecedented conditions, not only here, but all over the world. The problems which we have to confront are new problems. The factors which will determine business in the United States in the future are new factors. The old landmarks of business by which to a certain extent we could guide ourselves and our plans, have been swept away. We are in the midst of what is almost a worldwide war. A large portion of the population of the world has reverted to barbarism.

Think of what one on the planet Mars would say, who for the last forty years had looked down upon the earth, who could not have seen the boundary lines—because they are not physical—between different peoples and different governments, and had seen that one people of Europe, that one mass of humanity, working, toiling, striving for forty years to build up wealth which would give them freedom, to a certain extent, from the necessity of manual toil and the opportunity to build up the sciences and the humane arts, and then at the same time have seen them with equal energy, under the theory that it was necessary for the preservation of this wealth, building up great engines of destruction which, at a given moment, they turned against accumulated wealth and against each other, reverting in a day not only to where they started forty years before, but reverting back ten thousand years into primeval barbarism. (Applause.)

We confront, as I say, in a situation such as this, new conditions, new problems. One cannot make the conventional speech. The conventional phrases are no longer appropriate. If a man believes that there is going to be prosperity he must give a reason,

g. J. H. Beck

and that is what I am going to do to the best of my ability—to give my reasons why I believe the United States is about to enter upon one of its greatest eras of prosperity.

In the first place, a natural reaction to prosperity was due in this country at the time of the outbreak of the European war. We had passed through, in 1913, one of the most drastic liquidations of credit in the financial history of the United States. The panic of 1893, with which those of us who are older were bitterly acquainted, was looked upon as one of the greatest elemental panics, and it resulted in a depression of business, from which we did not begin to recover for four or five years. And yet do you know that in the panic of 1893 the reduction in deposits—the deposits representing purchasing power—of the national banks of the United States was only \$422,000,000 as compared with the reduction in the deposits of the national banks of the United States in 1913, of \$426,000,000.

The reason why that unprecedented liquidation of deposit credits last year in the United States did not bring us into the same chaos of business, the same prostration of industry that it did in 1893, was because of the improvement in banking conditions and the facility with which bankers had come to handle such crises as that. And so it was that while in 1893 bank loans were contracted to the extent of \$313,000,000, in 1913, instead of contracting loans to this enormous extent—in other words, instead of going out and demanding that the solvent business of the United States give up its life blood to the banks—the national banks actually increased their loans to the extent of \$40,000,000. The bankers had learned how to protect the great superstructure of credits which are built up under the normal and ordinary operations of banking, and which constitute the foundation for the greater part of the circulating medium of the country, for ninety-five per cent of our business is transacted by checks and drafts drawn against deposits in solvent banks. All economists, John Stuart Mill in particular, recognize the fact that these deposits are purchasing power; that credit is purchasing power; that in the effect upon purchases, under the law of supply and demand, the use of checks and drafts, or the use of any credits as a purchasing power has just as much of an economic effect in fixing the range of prices as if the physical money of the government were used.

And so, sixty days ago, what was it that the bankers of this city and the bankers of the United States confronted? They were confronted with a draft upon them for physical currency which was necessary in the banks as a foundation for the superstructure of these deposit credits in terms of which you do your business, and all do business in the United States; for, as I said before, of all business ninety-five per cent is transacted in this particular form of bank credit currency. They perhaps violated the Sherman anti-trust law. I hope not. I do not know. But they protected that superstructure of credit, not any more for themselves than for the business community, for industry and for commerce in the United States. They devised the clearing house certificate system. I have explained, I think, over at the Chamber of Commerce just how the certificate system protects the cash in a community and keeps it under the bank deposits. When a national bank in a central reserve city is down to its reserve, in other words, has only twenty-five per cent under our present law of physical cash on hand, as against its deposits, for every one dollar in currency that is taken out of those reserves, in order to restore the relation between reserves and deposits, three dollars of credits must be cancelled in the form of loans against four dollars of deposits. The bank calls its loans and they are paid by check, not by physical cash as a rule. That is why in the panic of 1893 our business went down in chaos. The preservation of the existence of cash reserves in the banks was absolutely necessary to the preservation of the chance to have prosperity in the future. So we provided for the clearing house certificate system.

To the minds of most of us—to my mind before I went through the panic of 1907, the clearing house certificate simply was a convenience to a bank in paying a debit at the clearing house in an I. O. U. instead of in currency, and to that extent only protected the currency in the bank. But it had another effect. It prevented the buying of outside business, the competitive buying of outside business by one bank from another by shipping currency out of the town.

Let me illustrate that. If a banker at Peoria had \$100,000 on deposit with me and wanted the physical cash, I might argue with him all I pleased that here was an emergency which was national, that he had not deposited currency, but had deposited

credits, that he should stand with me and endeavor to protect the community as well as the banking system from disaster and chaos and tell his depositors to wait, as I was telling my people to wait until credit conditions could be restored, and confidence could be restored, and panic could be stopped. But he would not listen. He would go over, we will say, to one of my rivals in banking and say, "Mr. Dawes won't give me currency. I have \$100,000 deposited in his bank. If you will give me \$50,000 in currency I will transfer to you the whole deposit." The banker would take it and put in the Peoria banker's checks upon me for \$100,000, and if we were not upon a clearing house basis I would have to settle in the clearings for that check with \$100,000 currency. But if we were on a clearing house certificate basis and one of the other banks would take the deposit and pay the \$50,000 in currency to the Peoria banker and the check of the Peorian for \$100,000 would come in on me through the clearings, I would pay it in a clearing house certificate instead of in cash and my rival would be out the \$50,000 in currency. That is one way the clearing house system protects the city from a drain in cash.

And it is exactly the same condition which the bankers of New York confronted. Their reserves were below the legal limit. They are now—this last week—about at the normal figure, so confidence is reviving. Unprecedented demands were made upon them for the payment of that which constituted the reserve foundation of the deposit credits of the New York banks, and if they had shipped gold, if they had paid their debts in gold instead of paying them in credits, as they chiefly do in the normal condition of things, the whole credit superstructure of the United States practically would have been in ruins. It was an emergency—it was war—and they did not ship gold. They said to their foreign creditors: "Wait. It is as important to you as it is to us that this great credit structure in the United States be preserved." And they were fighting your battle and my battle. They were fighting for the protection, for the preservation of purchasing power in the United States, and thank Heaven they have protected and preserved it, and it is the best reason today why we can hope for approaching prosperity in the United States, for when people need things they have now the credit to

buy them with, and if people live they need things and want them and will buy them. (Applause.)

They protected that superstructure of credits—the New York banks. And now they are paying those foreign debts by grain and other shipments. Conditions being more normal, they are beginning to pay them as best they can in gold. But they had to do exactly what we did here sixty days ago and in 1907, and what we should have done in the city of Chicago in 1893—suspend for a time cash payments.

I regard as a great calamity to the country what the bankers of Chicago looked upon at that time as something very creditable, that is that they did not in 1893 go upon a clearing house basis, because they happened to have a temporary relief of an inflow of physical cash from the World's Fair, and thus left practically without the protection of their example the banks of the entire West, and that tremendous and widespread contraction of deposits against loans went on in the West which brought the great depression and great loss and the great suffering of 1893 and the following years. The bankers of New York did not immediately pay out their cash which was demanded by Europe, but they are now paying their debts.

Now in my judgment what we have recently gone through will result in an international clearing house system some time in the future, by which by paying the proper penalty as we do in the shape of seven per cent interest on our local clearing house certificates some way can be arranged for a nation to temporarily avoid the transfer and the transportation of physical gold, with all the dangers which are attendant to the credit system of the different countries when that shipment assumes an unusual volume.

But—this is my first point and my longest point—purchasing power has been preserved in the United States.

There is an economic value to peace. If an industrious man owns a farm next to another man who fights, or who devotes himself to something other than caring for his farm, under economic laws and under divine laws the idleness of the latter is not allowed to penalize the man who works,—who is at peace. I can have no intellectual sympathy with the economists who say that in this great destruction of wealth in the European world we must largely share, and must be greatly hurt. The Lord has

put us here to work out our civilization under the laws of the survival of the fittest. The man who is peaceful and the man who is industrious and capable generally profits at the expense of those who either through no fault of their own or through fault of their own give up industry and turn their attention from farming and forging into fighting. There is no reason in sound political economy so far as I am able to judge for believing that this great disaster which we so deplore and which is crushing our brothers in Europe will result in economic disaster to us. For a nation is like the individual, subject to the same laws, and offered by his Creator the same inducements for sobriety and industry.

The first impetus that is coming to us in this country at this time, the first step in what I believe to be prosperity, now that we have the purchasing power protected in the United States which must be its basis—for prosperity is only another name for activity in exchanges—is the activity in exchanges which has started in connection with the food products of the country.

For the week ending October 8th, as compared with the same week last year, there were forty-four cities which actually showed a gain in their bank clearings, which are the best measure of the evidence of activity in exchanges. There were sixty-six cities showed a decrease, but forty-four showed an actual increase, and those cities were largely situated in the Middle West. The agricultural Middle West is practically in a condition of prosperity today. Real estate—the great foundation of all value—is turning its dividends into the hands of the farmer. We have a great crop. We have high prices. Our wheat exports today are twenty-five per cent greater than they were a year ago.

There is a feeling of optimism in the Middle West. There is an ability to purchase on the part of the Middle West, just as there is on the part of the people in the East who yet lack confidence. But with that increasing activity of exchanges in the Middle West will come the purchases on the part of the Middle West from the East. When business activity starts after such a great blow as the interjection of a foreign war in its natural and peaceful and orderly conduct the impetus comes first in those businesses which produce goods for almost immediate consumption; but it cannot come thus to agriculture—to the men who sell meat, to the men who sell fish—to the men who raise

farm products of all kinds; it cannot come to them in this country without being reflected before a great time in almost every line of business. They talk about our foreign trade. We ordinarily devote in our forecasting of prosperity or adversity almost one-quarter of the time which we consume in giving our learned opinions, to comment on the state of our foreign trade, and yet the entire foreign trade of the United States is only about one per cent of our total domestic and foreign trade, and I make this assertion that so far as domestic prosperity is concerned, our foreign trade is practically a negligible quantity. (Applause.)

If our foreign trade falls off thirty-three per cent—this may not be orthodox, but it is true—if our foreign trade falls off thirty-three per cent it represents only one-third of one per cent of our total trade, and what fluctuation to the extent of one-third of one per cent can furnish those conditions which justify us in looking upon them as determining prosperity in the United States of America?

We are independent. We are commercially independent. We are industrially independent. We do not need the world as the world needs us. And this great war which has come upon Europe at this time will put an additional premium upon the prosperity of the United States, and eventually will not in any material way reduce or lessen it in my judgment. (Applause.)

While I have made one or two business addresses during this fall, I really retired from speaking a year ago last March, because—not supposing that the public would have any interest in what I said—I made an extempore speech—as this is—before the Electrical Club, and some young man from one of the papers undertook to translate in language which he thought better than mine, my real purposes (laughter) and among other things he stated that I said “real estate was a gamble.” And he also said that my friends on the Board of Trade were guilty of this and that offense. And to my great surprise the young man made such epigrammatic and forceful statements—of absurdities—that in the papers the next morning they came out with double stars. (Laughter.)

In the real estate department of our bank some of those to whom we had sold mortgages came in and said, “What is the matter with your president? Please take back these mortgages.” The president of the Chicago Real Estate Board in a very digni-

fied and very able way called attention to my errors. The Chicago Board of Trade appointed a committee (laughter), who wanted to know why it was, in view of our harmonious relations as bankers with them as individuals, that I had indulged in such reflections. I denied it until the reports of the speech began to come in stereotyped in the country papers, and then I fled to California and made no more public speeches, and until about sixty days ago resolved that I never would. (Laughter.)

But I want to tell you as I come back, gentlemen, your guest (therefore probably forgiven for that of which I was never guilty) that I never said it. (Applause.)

I have ten minutes left and that much ought to be saved out of any time in days like these to say something along patriotic lines.

There is a patriotism, my friends, in a pride of peace, and I never felt prouder of my country than at this time, and I never felt prouder of our president than I do at this time, who, despite the clamor of the demagogues, despite the political advantage which might have come to him and his party, did and has done for the past year that which he believed to be right, and preserved and protected us from the folly of a war with Mexico.

We are all of us,—or should be to some extent—politicians, but we are first American citizens, and I for one even upon the eve of a political conflict would not withhold my praise from that great and anxious and quiet man who has rendered us this great service. (Applause.)

We have a great country. I like to tell—because I have found out that people like to hear it—I like to tell how I was once upon the flagship New York as the American fleet came from the battle of Santiago—in a time of domestic war then, as it is not now—up the Hudson River, after their long absence in that Santiago campaign. I had gone down as a guest with the Cabinet to those war vessels as they lay in their grey paint in the darkness of the early morning down the bay. As we later steamed up into the Hudson River, it seemed as if there were a million people upon the shore. All New York seemed to be out. The excursion boats were whistling, the artillery was firing salutes; upon the deck of every battleship the bands were playing the national anthem; and on our deck I saw one young captain of marines—I shall never forget—the tears running down his face,

walking up and down saying, "This is my country! this is my country! this is my country!" And that same day at noon I saw old Secretary Wilson walking alone on the quarterdeck, and I said, "Mr. Secretary, they are serving luncheon below, and you had better go down." Secretary Wilson is a typical American citizen—from Iowa; a farmer—dignified—with the majesty of naturalness, without affectation; and he said to me: "I don't make it a rule to go where I am not asked." "But," I replied, "Nobody will regret the oversight more than the officers of the ship; you should go down. You have had nothing to eat since four this morning." He said, "My boy, I will tell you" (I was younger then) "thirty-five years ago I came up this same river with my Scotch father and mother, in the steerage of a little ship, and now I come up this same river on this great warship, a member of the Cabinet of the President of the United States. I want to walk here and think about it. I can get along without lunch today." (Applause.)

Think of what this country has done for men like Wilson, for men like us, for any man who will do his duty, for any man who will do his work as best he can. It is the best country in the world. I shall never forget my sensations on my only trip to Europe. I had been over there for thirty days, traveling about 150 miles a day and being put up in the worst rooms in the hotels, unable to speak any language except my own, buffeted, sick, sore, tired. They told me on the returning ship that last day out that if I stayed up until two in the morning I might see the Fire Island light house. And so on that dark, cold morning at two o'clock, I with three or four others (I do not think there were over three or four others among the thousand on the ship that were so homesick as I) watched, until off through the darkness I saw that little pin prick of light lift itself up above the level of the sea. And when I saw it and realized what was behind it, it seemed for the minute as if I would not trade three square miles of it for the whole continent of Europe! (Applause.)

And so, my friends, I end this speech, as I ended my other—in the words of another:

"My country! May she be always right! But, right or wrong, my country!" (Prolonged applause.)

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